

## Chapter 6 INSTITUTIONAL FRAMEWORK AND GOVERNANCE

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### 6.1 OVERVIEW

Timor-Leste's economic and social progress will initially be driven by the public sector initiatives. Along the way, private sector is expected to participate, and later become the driver of Timor-Leste's development. To do so, the environment to enable such growth needs to be substantially improved. In this regard, the appropriate institutional framework and the governance of Timor-Leste's state apparatus must be in place.

The institutional framework within which the Strategic Development Plan (SDP) 2011-2030 and other government plans are developed and implemented will be the key determinant of its successful accomplishment. The institutional reforms and capacity strengthening in the public sector have been started in 2008 and will still among the strategic goals of the SDP. One of the priority programs is to establish the planning and investment unit that are expected to define appropriate policies as well as overseeing the entire subsequent process.

The Government is also fully aware that without the competent, experienced, and motivated human resource that would drive institutions and systems forward, the planning effort would be difficult to be translated into actions. Therefore, human resources capacity building, institutional capacity strengthening and proper reward systems are also among the core program. To the extent that institutional re-organization and capacity building depend on human resources, addressing the existing human resource capacity gaps through training and retention of professionals in the right positions shall receive the highest priority during the first medium term plan of the SDP.

## 6.2 PLANNING FRAMEWORK

The planning aspect has been the focus of attention since the independence of Timor-Leste. Shortly after the independence, the people of Timor-Leste have developed the "Vision 2020" that spells out the profile of Timor-Leste in year 2020. Vision 2020 was then elaborated into the National Development Plan (NDP) 2002. NDP 2002 translated the Vision 2020 into a more detail sectoral program and activities that form the government program. The NDP 2002 is the guiding document for the country that sets the framework for achieving the Vision 2020. NDP 2002 was developed against the backdrop of the MDGs and it only covers the program up to 2007.

With reference to the NDP, several Sector Investment Programs (SIP) were also developed in 2005. The SIP has five years planning horizon. SIP provides the strategic sectoral plan for each of the key areas for intervention and support. The SIPs also frame the cooperation with development partners, ensuring that collaboration supports the direction of the country planning and programmes. Annually, the government developed the Annual Action Plan and the Annual Budget to implement the program.

The above mentioned planning documents have been able to take Timor-Leste to what it is now. However, Timor-Leste needs to speed up the development process to realize the country's vision without delay. Learned from the weaknesses of previous planning process, Timor-Leste should have a more rigorous planning framework that would direct the country where to go in the future. It should have a clear vision and mission both in the medium and long term. Planning of national development for the sake of short term needs result in unpredictability. Furthermore, planning without budgeting is only a dream whereas budgeting without planning will result in wasteful spending or widening the possibility of corruption.

The SDP is designed to allow any future elected government's vision and missions adopted in the short-term development plan. All of this should be written in an integrated planning and budgeting document in conformity with the country's long term goal.

Past planning process also hampered by weak coordination, monitoring and evaluation aspects. Therefore, a dedicated planning unit within the government is

deemed necessary. Planning coordination is absolutely necessary to minimize duplication or lack of synchronization among sectors. The government may adopt a development budget administration process using a performance basis in which the planning unit is involved in planning, monitoring and evaluation. The task and function of planning and budgeting of sector development is conducted by each line Ministry, the Ministry of Finance and Parliament.

As Timor-Leste moves toward decentralization, it needs to involve as much as possible regional governments and civil society in formulating development plans and its budgeting so that economic recovery can be achieved without ignoring the end users.

SDP will be operated through the Medium Expenditure Term Framework and the annual work plans, which are supported by the annual budgeting. In ensuring that government structures are accountable to each other, the process of refocusing priorities shall follow a complementary and consultative top-down and bottom-up process. At the level of top-down process, the Plan will be reviewed annually taking into account the Vision 2020 as embodied in the SDP. The annual reviews will provide an informed basis for a more focused fiscal allocation of resources for annual and medium-term implementation. In this respect, the top-down process will involve the following specific issues.

### 6.2.1 The New Institution: The Economic Policy and Investment Agency (EPIA)

The key question for the Government and for the nation as a whole is the capacity to scale up investment programmes at the pace outlined in the SDP. This success will depend on three things: (1) an institutional framework for implementation; (2) a satisfactory global economic and geopolitical environment; and (3) massive training at all levels of society.

The most important institutional breakthrough will be a new agency in charge of the plan, design, budgeting, and implementation of the SDP – the **Economic Policy and Investment Agency (EPIA)**. The EPIA will serve a role similar to a national planning authority, analogous to the National Development and Reform Commission in China, the Economic Policy Unit of Malaysia, or the Planning Commission of India. The functional units of the EPIA will include: economic

planning; programme monitoring and evaluation; procurement and contracting; budgeting; international cooperation; and public information.

The EPIA will streamline the government's planning and implementation functions, and will be charged with negotiating contracts with domestic and external management teams to implement key functions under the SDP. The EPIA will also be responsible for capacity building under the SDP, working in close cooperation with line ministries.

The government, advised by the EPIA, will identify key strategic training needs and programmes. Each sector programme will involve the scale up of local capacity, through targeted training programmes at home and abroad. The EPIA will also build its own staff capacity in economic planning and contract negotiations.

The EPIA will provide institutional innovations that will deliver the long-term objectives of the national Strategic Development Plan.

### 6.2.2 The Roles and Interaction of Different Institutions

1. The EPIA reviews the macroeconomic, fiscal frameworks and sector performance as an input into the macroeconomic projections for the medium-term development objectives;
2. preparation of macroeconomic framework, including projections of GDP and total domestic resources;
3. Budget guidelines are prepared to provide specific steps and budgeting information to ministries and agencies to guide preparation of MTEF and annual Budget;
4. Indicative macroeconomic framework and resource envelope are presented to Council of Ministers for discussion and approval;
5. Macro Framework and Budget priorities are then presented to the Parliament and civil society for comments;
6. the EPIA and Ministry of Finance (MoF) updates macroeconomic framework and consolidates ministry annual budget into annual national budget, based on outcome of budget hearings and comments from the Parliament;

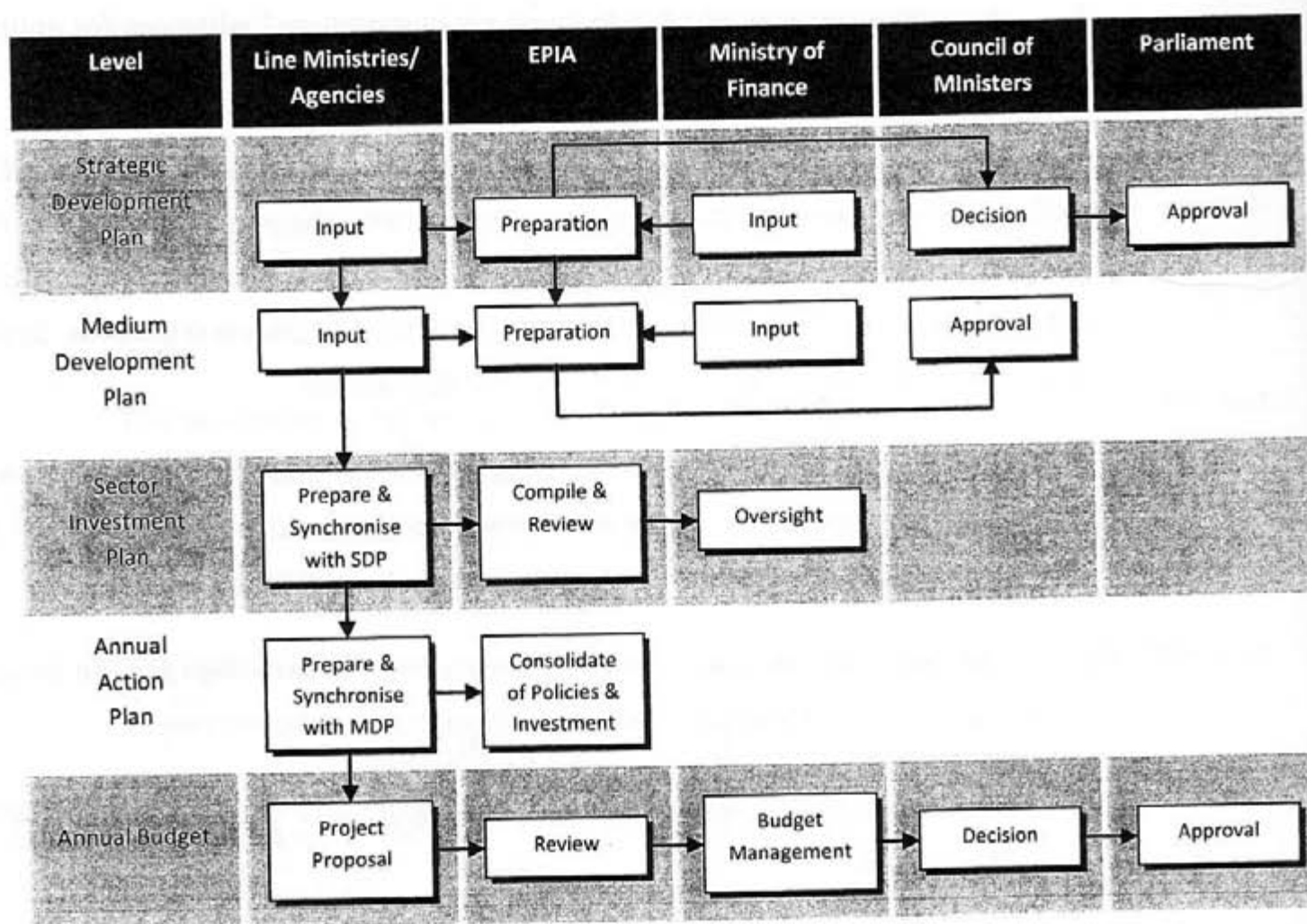
7. Finalization of Draft Budget Framework and Annual Budget are done by MoF;
8. Decision by Council of Ministers and presentation to Parliament for approval each year;

The bottom-up process will need to be defined along with the presence of the EPIA. Meanwhile, the sector roles are remains to start with the preparation of the draft budget framework, which review objectives, outputs and activities, including critical assessment of priorities of SIP in line with the SDP sector objectives. Specific activities of the bottom-up process during the SDP will be:

1. Line ministries and agencies will prepare the SIP that will include the sector goals and outcomes, policy frameworks, objectives, program, outputs and activities;
2. Line ministries and agencies will estimate the cost activities for the three to five year period and prioritize the program;
3. Line ministries and agencies will identify issues and conditions that need to be resolved;
4. Line ministries and agencies submit the SIP to the EPIA and MoF for investment review and budget consolidation.

Figure 6.1. shows the roles and interaction of different institutions in the implementation of the SDP.

Figure 6.1 - Roles and Interaction of Different Institutions



### 6.3 IMPLEMENTATION FRAMEWORK

The national development planning, whether it is the long-term, medium term and the short-term plan, is expected to be the effective and efficient means for allocating and managing national resources. To make it effective while institutionalize the process, following actions will be taken:

1. In the first five years of the SDP, review of the existing regulatory and legislative systems for planning and budgeting with a view to ensure cohesiveness between the two processes and ensure that the state systems, procedures and structures are in line with the decision to use planning as an overarching tool to address the country's challenges of improving the socioeconomic conditions and stimulate sustainable economic growth; The new regulations will focus on the *planning* (e.g. institutions, processes, reporting, etc.) issues in order to give the legal and regulatory framework to the institutions and processes for planning;

2. The establishment of the EPIA together with its capacity building program shall be undertaken to enable it to further refine the planning process and documentation as well as monitoring policy and program implementation of the SDP. In the early stage, where the majority of the investment will come from public sources, the investment function would focus on priority and ensuring the effectiveness of public investment while formulating necessary policy to attract private investment. In the later stage, where private investment starts taking up, the investment function will then shift its focus into a fully functioning investment board;
3. The SDP shall be further translated into the five year development planning and resource programming tool over the 2011 to 2015 period (Five Year Plan). A process of developing a national development plan every five years will continue to enlist the input of stakeholders at all levels from planning and implementation to monitoring and evaluation. It is important to recognise that the Five Year Plan will also accommodate the future elected Government vision and missions, Medium Term Expenditure Framework (MTEF), and the annual national budget. In this respect, the annual budget will be the primary instrument for implementing the plan.

In addition to the overall country program as outlined in the Five Year Development Plan, each sector is expected to develop the Sector Investment Plan (SIP). The SIP will focus only on the strategic investment i.e. national capital formation in the respective sector. The SIP sketch out sector investment strategy to support the achievement of national long term vision on a five year basis. The period and activities should be in line with the Five Year Development Plan. The SIP will provide the following details:

1. Sector objectives/targets over the 5 years period;
2. Investment Program and its strategic objective(s);
3. Investment activities covering the Five Year Plan period;
4. Sub-activities, giving yearly activities to be identified by each level of implementation;
5. Budget, including sources of financing;
6. Timeline for the specific year; and
7. Implementation modality.

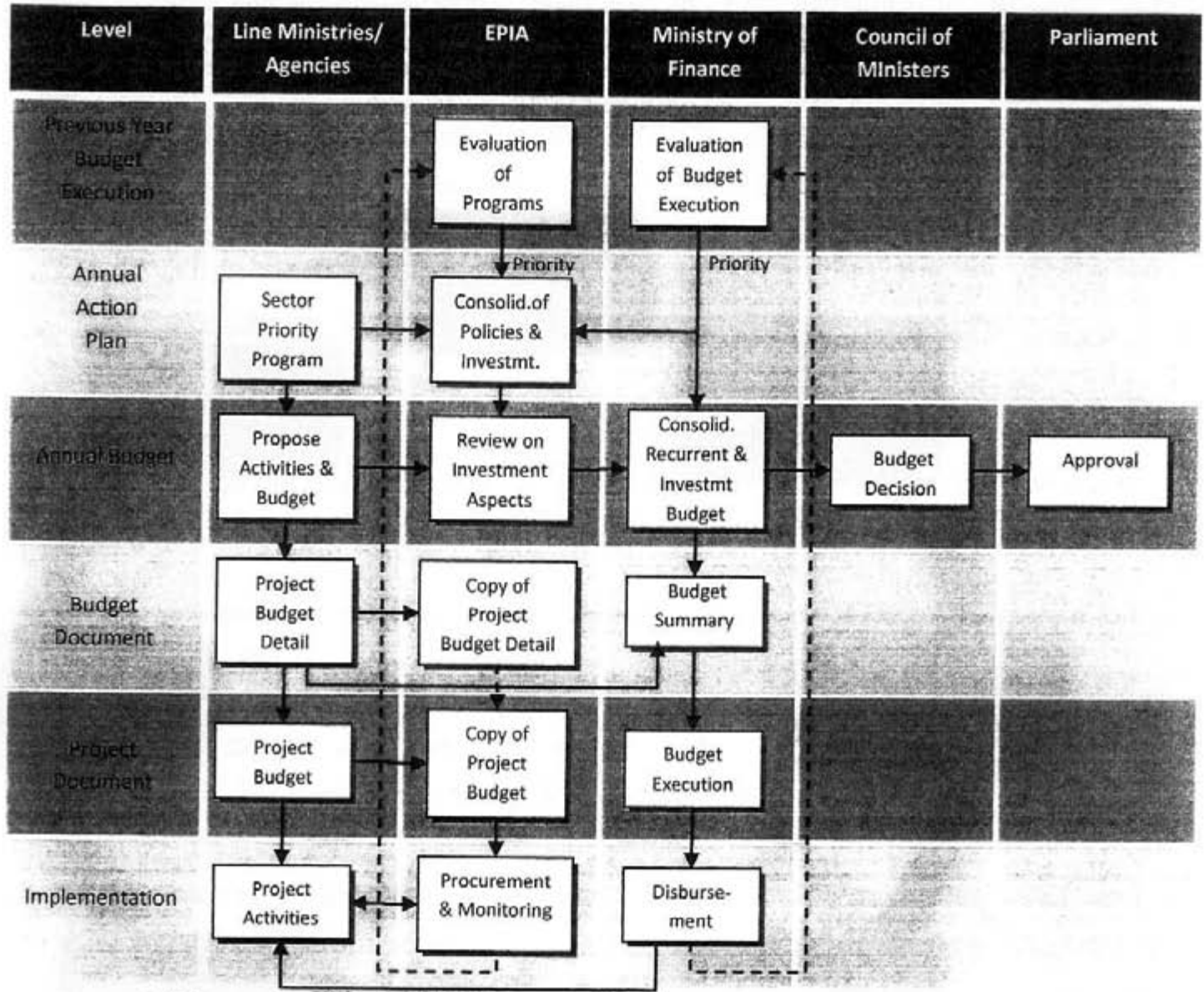
While the Five Year Plan provides the overall framework and specific program within the context of the projected resource envelope, it is important that the annual work plans for respective sectors actually guide specific interventions. The work plans will be developed at levels of implementation and will be based on the provisions of the Five Year Plan. They will guide actual implementation while the Five Year Plan only presents strategic goals and objectives as well as indicative activities. All the activities that shall be implemented annually shall focus on the realization of one or more of the Five Year Plan s objectives.

The annual work plans will provide the following details:

1. Sector annual objectives/targets;
2. Program and its strategic objective(s);
3. activities during the year;
4. Budget, including sources of financing;
5. Timeline for the specific year; and
6. Implementation modality.

In the context of the above, the SDP has identified only broad programmes for each sector/component while the preparation of details regarding activities under those programmes is left to the competence of each sector/ministry as guided by the annual work plans and national budget prepared by the EPIA and Ministry of Finance and approved by Parliament, as outlined in Figure 6.2.

Figure 6.2 - Annual Work Plans and National Budget Scheme



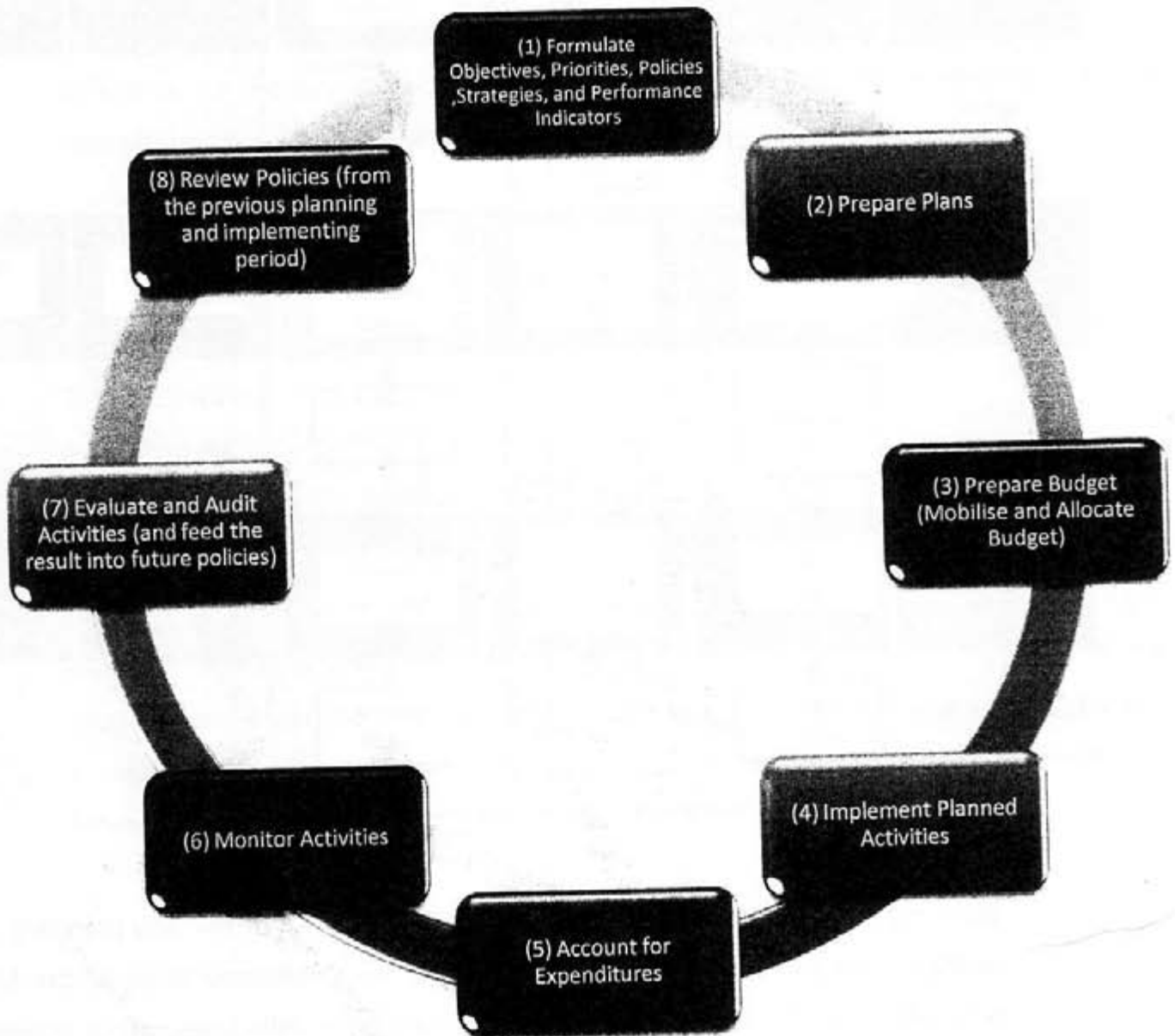
With regards to the institutional interactions, the flow of the any planning will be multi-directional. The overall coordination of the implementation of the SDP will rest with the EPIA with the full participation of line ministries, other government institutions, civil society, and development partners. The EPIA will be the focal point for the SDP coordination, monitoring, and evaluation. The coordination aspect will also include harmonization of external financing for the SDP programmes and other technical assistance.

#### 6.4 MONITORING AND EVALUATION FRAMEWORK (M&E)

Line ministries and agencies are responsible for evaluating the performance of their development plans of the previous period. More detailed procedures for M & E of the implemented development plans will also be developed. This procedure should provide specific table formats for use by the line ministries and government

agencies to report on program implementation, and formats for the consolidation of such information.

Figure 6.3 - Monitoring Process



Under such scheme, Line ministries and agencies are responsible for programs and activities which in turn contribute the basis for establishing budget. Each program and activities produces outputs (immediate results) and outcomes (medium-term results). Over the longer terms outcomes lead to impact (long term results).

M&E play a key role in the existing integrated planning, budgeting and implementation management system. Line ministries and agencies must evaluate performance of programs at least once every five years. In the past, public sector monitoring almost exclusively focused on assessing fund absorption and physical progress. As a consequence, the impact of development, especially for social aspects, was often lacking in monitoring and evaluation. Timor-Leste would much

benefit from having a comprehensive and integrated monitoring and evaluation system which can provide feedback of the development planning and implementation, to complement the public financial management.

The M&E process is the responsibility of each line ministries and agencies. The EPIA will be then responsible for:

1. The overall process and including ensuring that the monitoring and evaluation responsibilities of Line ministries and agencies are met;
2. Ensuring that M&E are performed to common technical standards;
3. Ensuring that M&E reports are directed to Government unit(s) where they are needed;
4. Ensuring as far as possible that monitoring and evaluation are carried out in an efficient manner.

For the sake of consistency and efficiency, it is desirable that the national and regional M&E systems strive for compatibility and complementarily. M&E guidelines for output and outcome assessments of programs include specific guidance on how to assess cross-sector and thematic areas. Better M&E makes it possible to generate better information on the impact of government's efforts for strategic issue such as poverty reduction, gender equality and environmental sustainability, so that policy-makers and politicians can act on it.

## 6.5 INSTITUTIONAL FRAMEWORK

Effective and efficient implementation of any plan including SDP will depend on the environment within which the plan is implemented. With regards to the public sector, the environment would consist of institutions, rules, norms, values, and pay structures of the civil servants as a whole. Therefore, improvement of the wider institutional environment shall constitute one of the central themes of the SDP. This will entail institutional change at the Government that will include the decentralization policy as it planned in the near future.

SDP as a national planning reference must be well understood and agreed by all elements of the nation. Recognition of the importance of consensus on national development policy, reform activities, and objectives between the Government,

domestic stakeholders and development partners can be facilitated through formal and informal consultation to ensure that there is common understanding on both the processes and instruments of the SDP implementation. It is therefore necessary to familiarise all government officials and other stakeholders the contents and process of the SDP. SDP shall also be disseminated to general public and external stakeholders, defining its main components/targets, and enlisting support for those targets.

The functional relationships of different stakeholders shall be further redefined and the modalities of cooperation agreed upon through consultative processes. The magnitude of the challenges identified in this Plan mean that its implementation has to be a product of collective action and collaboration between the Government and all stakeholders. The SDP implementation, supervisory, and monitoring structure will be developed in a manner that would provide guidance in:

1. Strategy direction;
2. Activities coordination;
3. Implementation sequencing;
4. Monitoring of implementation; and
5. Periodic impact assessments.

To ensure the SDP and other development plan can be translated into actions in an effective manner, following policy directions are taken:

1. The existing departments in sectoral ministries shall constitute the SDP's main implementation organs and ad-hoc units under the various sectors shall be realigned to the targeted goals, programmes and objectives of the SDP.
2. Coordination/consultative mechanisms inter ministry and within the Government of Timor-Leste, as well as between Timor-Leste and development partners are to be re-defined.

The necessary conditions must be created and guided by the following principles:

1. Efficient planning and application of resources during the SDP period which will also be the base of establishment of the EPIA;

2. Integration of the state and government budget resources as well as potential resources from international development cooperation;
3. Emphasizing good governance in the implementation of the Plan, focusing on efficiency, transparency, and realism in the design and implementation of the medium term and annual work plans,
4. Strengthening of links between sector expenditure program/activities and the MTEF;
5. Fostering a sense of cooperation and partnership with all stakeholders through regular consultation and reporting while firmly maintaining control and leadership within the EPIA together with MoF;
6. Developing and/or strengthening mechanisms for measuring the SDP performance through strong monitoring mechanisms with clear performance indicators. This will entail the establishment of monitoring and evaluation systems that ensure timely interventions during SDP implementation as well as providing information on program performance
7. Defining the planning coordination function of the proposed EPIA and other related units in MoF through the capacity development;
8. Enhancing the planning and monitoring capacity of line ministries and government agencies in order to secure the requisite competencies for effectively managing their respective components of the SDP; and
9. Decentralisation as an important way of collecting and acknowledge the interest and participation of other local stakeholders.

## 6.6 GOOD GOVERNANCE

SDP realizes that the successful implementation of any development plan will depend upon voluntary participation and active engagement of all elements of the nation. Voluntary participation in the national development of Timor-Leste will arise if there is trust to the Government as the executing party of the plan. Hence, efforts to build people's trust to the government have been one of core issue in the SDP.

Reform in Timor-Leste's public sector has been initiated since 2007. The improvement of managing the state budget is as a part of bureaucratic reform that the government of Timor-Leste going through. The implementation of reforms stated above is still in the process, but has showed the effectiveness, although it still needed to be improved.

Such reforms will not be successful without a more comprehensive bureaucratic reform, which is not only in managing state budget, but also include the bureaucratic reform in the institutions, management and human resources based on good public governance practices. This allows principles of openness, accountable, effectively, and efficient principles, based on Law enforcement and a wider stakeholders participation.

The commitment of Timor-Leste to implement bureaucratic reform is part of SDP's priority with the objective to implement good public governance as to maximize value of public service delivery. Timor-Leste realizes that one of the key successes of development is based on the quality of government management. Based on the experience of other countries, problems are resulting from the weak implementation of good public governance, showed by lack of productivity, quality and innovation of government performance.

The SDP sets out target for implementing good public governance in public sector as follows:

1. High quality delivery of public services through clean government institutions with an efficient, effective, transparent, professional and accountable bureaucracy. These will be achieved through:
  - a) Recruitment of competent and motivated Timor-Leste's human resource to fill in newly available positions in the public sector;
  - b) Improve the management and increase the capacity of existing civil servants in order to be more professional in performing their respective tasks and functions;
  - c) Restructuring of government institution functions to be more effective, proportionally-structured, adaptive and responsive;
  - d) Improving the internal procedures in every level of government functions;

- e) Improve the welfare of the civil servants based on clear performance indicators, respective responsibility and merit evaluations;
  - f) Optimal use of technology including *e-Government* to speed up the delivery of governmental task and functions.
2. Reducing and then achieve zero tolerance of corruption practice in Timor-Leste's bureaucracy. This will be achieved through:
- a) Implementation of good governance principles in all aspects and levels of government activities;
  - b) Effective internal supervision from within the Government and complemented by oversight from external parties such as Parliament, civil society and general public;
  - c) Clear penalty regimes on corruption practice with immediate and firm action on every convicted corruption practices;
  - d) Increasing work culture of official with morality, professional, productive and accountable;
  - e) Continuous countrywide anti-corruption campaign and extend the network of corruption control to involve external government institutions such as churches, civil societies and general public.
3. Increasing public participation in public policy making through:
- a) Improving the speed of delivery, the quality and availability of public services throughout Timor-Leste with a minimum standard of service;
  - b) Increase awareness and empowerment of general public capacity to participate in development process and to oversight the governance;
  - c) Increasing transparency, participation, and service quality by provision of access and information on various development issues;
  - d) A more transparent and accountable public procurement process.

From the broader perspective, in order to achieve good public governance, commitment between governments and international community has included issues of corruption eradication, environment management; enhance the quality of education and health, and poverty alleviations such as shown in the *Millennium Development Goals* (MDGs).